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BEFORE THE ARIZONA CORPORATION COMMISSION

SUSAN BITTER SMITH

Chairman

BOB STUMP

Commissioner

BOB BURNS

Commissioner

DOUG LITTLE

Commissioner

TOM FORESE

Commissioner

Arizona Corporation Commission

DOCKETED

MAY 19 2015

DOCKETED BY

IN THE MATTER OF THE APPLICATION
FOR AUTHORIZATION TO SECURE A
\$28,075,000 RUS GUARANTEED FEDERAL
FINANCING BANK LOAN AND TO
PLEDGE, MORTGAGE, LIEN AND/OR
ENCUMBER UTILITY ASSETS IN
RELATION THERETO

DOCKET NO. E-01750A-10-0179

DECISION NO. 75089

ORDER

Open Meeting
May 12 and 13, 2015
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

1. Mohave Electric Cooperative ("MEC" or "Company") is engaged in providing electric service within portions of Arizona, pursuant to authority granted by the Arizona Corporation Commission ("Commission").

2. On March 27, 2105, MEC filed an application that requested the Commission, pursuant to Arizona Revised Statutes ("ARS") § 40-252, amend Decision No. 72216, dated March 9, 2011 (the "Decision").

3. The Commission re-opened this case pursuant to ARS § 40-252 at its April 13, 2015 Staff Open Meeting.

4. MEC requested a time extension of MEC's authorization to draw upon the \$28,075,000 Rural Utilities Service ("RUS") guaranteed Federal Financing Bank Loan (the "Loan") for one additional year, from June 30, 2015 to June 30, 2016.

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1 5. In addition, MEC requested authorization for Loan funds to be used for a 10.40-acre
2 230/69 kV substation site and substation estimated to cost \$17,006,686 and a 3.99 mile long 69 kV
3 sub-transmission line costing \$1,844,514 (collectively, the "Sub-transmission Project"). No change in
4 the amount, term or allowed interest rate of the loan was requested.

5 6. RUS has extended, or is in the process of approving the paper work to extend, the
6 Loan for an additional year. RUS has also authorized use of Loan funds for the Sub-transmission
7 Project.

8 7. The Sub-transmission Project provides MEC a new point of delivery on the Western
9 Area Power Administration's ("Western") 230 kV transmission system, providing operational
10 flexibility and increasing system reliability and control, decreasing outage hours, while addressing
11 MEC's short- and long-term energy delivery needs.

12 8. The Sub-transmission Project will address outages that thousands of MEC customers
13 have experienced over the past two years when either of two existing 230/69 kV substations on
14 Western's 230 kV transmission line experience outages. Once in service, the Sub-transmission Project
15 will lessen both the scope and length of such outages and possibly could avoid the outages altogether.
16 The Sub-transmission Project will provide an additional way to deliver the energy during an outage.

17 9. MEC has used a combination of the Loan, internal funds and federal grants to
18 complete all major projects identified in Decision No. 72216, including:

- 19 • New Natural Corrals Substation near Wikieup, Arizona;
- 20 • Upgrading the Bullhead Substation Transformer to 12/16/20 MVA;
- 21 • Rebuilding the Sub-transmission line from Riviera to Lipan;
- 22 • Installing Automatic Meter Reading/Advanced Metering Infrastructure
- 23 technology, including the installation of 30,000 meters versus the estimated 17,000
- 24 meters (financed with federal grant funds);
- 25 • Installing a low-cost supervisory control and acquisition system for data acquisition
- 26 for distribution system data such as load profiles, power factor outage duration,
- 27 outage locations, and voltage control;
- 28 • Installing additional fiber optic conductor to complete the existing communication
- system in the Bullhead City area; and

- Injecting Cable Cure to direct buried cables built in the early 1970s.

10. The economic slowdown significantly reduced the number of new underground and overhead distribution lines and transformers MEC had to construct for new customers, (estimated to cost \$10,207,000). Additionally, MEC has voluntarily removed other projects from eligibility for the Loan funds, to make the Sub-transmission Project eligible for Loan funds.

11. For the year ending December 31, 2014, MEC indicates it had an operating times interest earned ratio ("OTIER") of 1.65 and a modified debt service coverage ("MDSC") of 1.36. As long as these ratios remain above 1.1, MEC is satisfying the financial conditions set by its lender. Assuming the full Loan had been drawn as of January 1, 2014, MEC estimates it still would have been able to maintain an OTIER of 1.37 and a MDSC of 1.33.

Staff Review and Recommendations

12. Staff notes that RUS has extended or is in the process of approving the paperwork to extend the Loan for an additional year. Also, RUS has authorized the use of Loan funds for the Sub-transmission Project.

13. Staff has reviewed the financial information provided in Attachment C of the application related to MEC's ability to cover operating expenses and the debt service requirements on the loan and determined the following:

According to the RUS loan contract, MEC needs sufficient revenue to maintain on an annual basis the coverage ratios of 1.1 for operating times interest earned ratio ("OTIER") and operating debt service coverage ("ODSC"). Using the December 31, 2014 financial information provided in Attachment C of the Company's application, Staff has calculated an OTIER of 2.66 and an ODSC of 2.03. Once the loan has been fully funded, Staff has calculated an adjusted OTIER of 2.04 and an ODSC of 1.72, both of which are sufficient to allow MEC to meet its operating needs and the debt service requirements of its loans on a going forward basis.

14. Staff believes that the Loan extension is appropriate and in the public interest. Staff recommends Commission approval of the Loan extension.

15. Staff believes that the new Sub-transmission Project will improve MEC's reliability and operational flexibility; and the associated Project cost estimates are reasonable. Staff recommends Commission approval of the Sub-transmission Project.

1 16. Staff concludes that the financing, as amended, is for lawful purposes, within MEC's
2 powers as a corporation, is compatible with the public interest, is consistent with sound financial
3 practices and will not impair the ability to provide public service and that it is in the public interest to
4 grant MEC's request for a one-year extension and to include the Sub-transmission Project as a
5 permissible use of loan funds.

6 17. Staff has recommended approval of the Loan extension and Sub-transmission Project.

7 CONCLUSIONS OF LAW

8 1. Mohave Electric Cooperative, Incorporated is an Arizona public service corporation
9 with the meaning of Article XV, Section 2, of the Arizona Constitution.

10 2. The Commission has jurisdiction over Mohave Electric Cooperative, Incorporated and
11 over the subject matter of the application.

12 3. The Commission, having reviewed the application and Staff's Memorandum, dated
13 April 23, 2015, concludes that it is in the public interest to approve the one-year extension and to
14 include the Sub-transmission Project as a permissible use of loan funds.

15 ORDER

16 IT IS THEREFORE ORDERED that Decision No. 72216 is hereby amended to: 1) extend
17 Mohave Electric Cooperative, Incorporated's authorization to draw upon the \$28,075,000 Rural
18 Utilities Service guaranteed Federal Financing Bank loan one additional year, from June 30, 2015 to
19 June 30, 2016; and 2) authorize the use of the loan funds for the Sub-transmission Project as described
20 above.

21 IT IS FURTHER ORDERED that Mohave Electric Cooperative, Incorporated is authorized
22 to engage in any transactions and to execute any documents necessary to effectuate the authorizations
23 granted herein.

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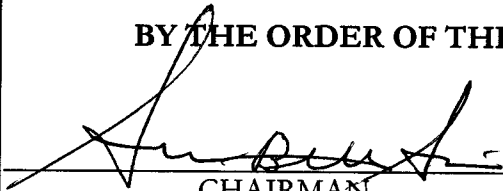
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1 IT IS FURTHER ORDERED that all other aspects of Decision No. 72216 remain in effect.

2 IT IS FURTHER ORDERED that this Order shall become effective immediately.

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4 **BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION**

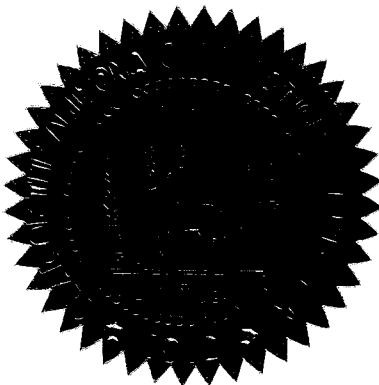
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CHAIRMAN

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COMMISSIONER

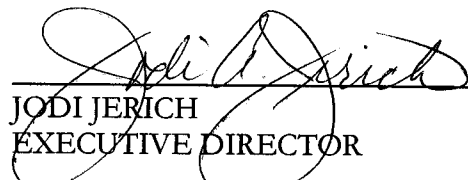
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11 IN WITNESS WHEREOF, I, JODI JERICH, Executive
12 Director of the Arizona Corporation Commission, have
13 hereunto, set my hand and caused the official seal of this
14 Commission to be affixed at the Capitol, in the City of
15 Phoenix, this 19th day of May, 2015.

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17 
JODI JERICH
EXECUTIVE DIRECTOR

18 DISSENT: _____

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20 DISSENT: _____

21 SMO:RTW:lm\WVC

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